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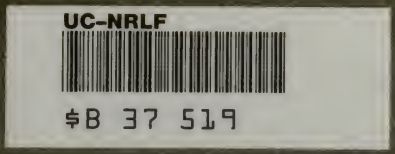

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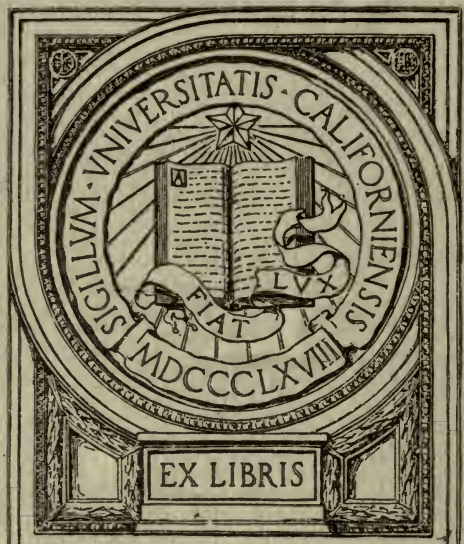

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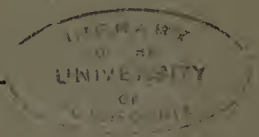

THREE POSSIBILITIES:

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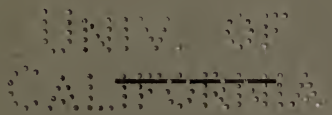

ADDRESS DELIVERED BEFORE THE FINANCE FORUM OF NEW YORK CITY ON DECEMBER 18, 1912

BY

JOHN HARSEN RHOADES

OF

RHOADES & COMPANY, Bankers, 45 Wall Street, New York, and Chairman of the Committee on Education of the New York State Bankers' Association

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Who Shall Control Our Financial Destiny?

About two years ago—the date is immaterial—I was discussing banking and currency reform with a leading Wall Street banker. If I mentioned his name, you would recognize him at once as a man of influence and ability. I said to him, "Why doesn't your firm take more interest in banking and currency reform? If we are to have real reform, you know as well as I that it is the big able man who must put his shoulder to the wheel." He replied, "Are you aware that a partner in our firm has given many hours of his valuable time to licking the Aldrich plan into practical shape?" I was surprised at his words, for at that time—two years ago—I had no idea that such was the case, and said, "If what you tell me is so, why has he so effectively concealed the fact?" His answer was significant, even typical of the times: "Why, man alive, don't you know that if the country were aware that a partner in this firm was even interested in the Aldrich plan, that plan would be doomed?"

Now I believe that in estimating the people's verdict my friend was mistaken. Every man no matter what his own status may be, demands from others the truth. He was reading into the minds of the people a suspicion which could not exist unless fostered by secrecy. It is secrecy that breeds the germs of suspicion, and it is suspicion that undermines our reasoning powers and makes us see things which do not exist. I believe that if a partner of that influential house had gone to the bankers' convention at Los Angeles, had struck out from the shoulder, and said to those men assembled from all parts of the Union—"Gentlemen, I am from Wall Street. I am sincerely interested in banking reform, and have given much thought to the subject. I am here to help and to be helped. Do you care to hear me or do you not?" Gentlemen of the Finance Forum, I believe if that question had been put at that time by a man I have in mind, banking reform would no longer be a dream but a reality.

I do not wish to be misinterpreted. It is not for me to dictate to any man a course of procedure. I merely tell the story to impress upon you the misunderstandings which must be overcome before banking reform is an accomplished fact.

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Now, I went to Los Angeles. I saw able bankers from Chicago, able bankers from St. Louis, New Orleans, Cleveland, able bankers from all parts of the country. I heard them speak. I saw them mingle with the crowd. But I neither saw nor heard the shrewdest of them all, the bigger men of Wall Street.

Real banking reform will be a vision until the brainy banker of the East and the brainy banker of the West cooperate; nay, until the men of the North, East, South and West confer with one another, learn one another's views and trust one another's motives. I wish to impress upon those who hear me, and upon those who do me the courtesy to read what I have to say, that I am a Wall Street man. I wish them to understand who I am and where I come from, I want them to do me the honor to believe that my motives are disinterested. I want them to know that when I ask for the brainy man of Wall Street to join us in this great reform, it is because we need him. Wall Street is not so filthy as some would think. Selfish men are there, yes, and everywhere, cold, calculating, hard-headed money makers, if you will, but not necessarily thieves at all.

Let me tell you another story: Just previous to the panic of 1907 my firm, a borrower of money from a large trust company, was informed that the rate on the loan had been raised to 50 per cent. The collateral consisted of gilt edged bonds, and the loan had been standing for some time. Knowing one of its officers—as a matter of fact—a personal friend, I called upon him, and among other things said: "Is not my credit sufficiently good to warrant a lower rate than 50 per cent.? You are a lender of money with a service to perform. Do you think it just to bleed me?" He replied, "I agree that such rates seem extortionate; but we are not facing a theory but a condition, and it is the duty of an officer of this company to its stockholders to take advantage of every opening that presents itself." Now, gentlemen, from his standpoint he was not dishonest, nor was he doing wrong. He was merely taking advantage of his opportunities. The fault lies where? Not with him, but with his conception of his duty to his stockholders versus service to the public and with a banking system that invited him to do as he did. I do not blame him, but you do. But are you not equally culpable in maintaining a financial system which furnishes him with these opportunities?

It was not until the panic of 1893 that we American people as a whole began to appreciate the weaknesses in our financial structure. We then gave thought to the subject, but we ac-

complished little until after the crisis of 1907. Since that date so much progress has been made that there has now been presented to the American people a well rounded plan of monetary reform, commonly known as the Aldrich plan, which calls for the establishment of a National Reserve or central reservoir for the bank reserves of the country. The completed scheme, however, bears little of the ear-marks of Senator Aldrich's work. I shall, nevertheless, at the outset call the scheme the Aldrich plan, if for no other reason than to show my respect for the man who fathered it. If there be those who can, I for one cannot be so small and narrow as to reject his or any other man's plan because the personality of the author may not be to my or someone else's liking.

Gentlemen, where are we at? There should be peace in the financial world, not distrust and bitterness. It is asserted that we need and must have the suffering and the lesson of another panic—a mean and cruel thought. It's claimed that we cannot have the National Reserve because Mr. Aldrich's name is attached. It's said that we cannot have it if it be known that a Wall Street man has had a hand in preparing it. Such thoughts are childish and unworthy of men. What difference does it make who the author may be? What difference does it make whether he be black or white, tall or short, suave or blunt, sincere or insincere—if the plan he proposes commends itself to our good sense? Put on your thinking caps, my friends, and think. It's the meat on the platter that must be digested, not the man who prepared it; it's the thought in an argument that must be considered, not the man who advanced it.

I have spoken thus warmly because I wish you to see things as they are, not as some would paint them. Sometimes it seems as if the nation were honeycombed with mean, suspicious thoughts. A man can scarcely rise to speak before another charge a false and ugly motive. He who tries to end an evil should be helped, not handicapped by base and mean insinuations. We should think and think fairly—not jump to our conclusions.

The Aldrich plan, as revised, was endorsed by our American bankers at their convention at New Orleans subsequent to its approval by many state organizations. It would seem, however, that for one reason or another the scheme has not met with popular approval, yet it contains much of merit. It would be a grave misfortune if, after the sacrifice of so much time and thought, we should feel compelled to discard it as a whole.

I am one of those bankers who are positive that in centralized power lies the true solution of our financial difficulties, I care not whether it be the Aldrich plan or any other plan; but when I say centralized power I mean centralized power, no chicken-hearted compromise. Therefore I am the more unwilling to throw the plan aside. My purpose this evening is to suggest an amendment, with the earnest desire that interest in the project be revived and the more conspicuous flaws eliminated.

I ask that you take with me the preliminary step of dividing the plan into two sections. That section which deals with the functions and operative processes of the National Reserve we shall not discuss. For that matter it is impossible in advance to lay out a hard and fast working formula; but the second section, constituting the basis of this address, and dealing with the method of election of the various boards, seriously invites the attention of the American people. It is a subject upon which we must train the available intellect of the country, for it is one which concerns not alone the bankers but the people as a whole. Upon it every American citizen has the right to speak, and to expect our national schoolmaster, the newspaper, to assist him in forming an honest opinion, and if he speak the truth to spread that truth among the people. Because the exponent of a plan is unknown or unpopular, should not mean that his argument is unworthy of your consideration. I repeat my metaphor. It is the meat in an argument that must be digested, not the man who prepared it.

As you know, under the Aldrich plan, in order to secure centralized control of the bank reserves of the country, there are to be scattered throughout the nation clusters of local associations of banks. These clusters are to be corded together, as it were, and tied to their nearest branch. The branches, about fifteen in number, are then to be gathered up and roped to the main association, that is, the National Reserve, at Washington. The amendment I offer would not disturb the method of electing the directors of the local associations and branches. In order to refresh your memory I will briefly describe this method, taking a local association for example. In each local association the number of directors is to be determined by the by-laws of the local association, but the method of election is to be uniform throughout the country. There will be two classes of votes used in the election of the board. The first is the solid vote of individual banks as units, designated the unit vote. The second is the vote by banks as proportionate owners of stock in the National Reserve Associa-

tion, designated the share ownership vote. Three-fifths of the directors of the local associations are elected by the individual bank vote and two-fifths by the share ownership vote. The purpose of this division is to place the control with the individual banks of each locality, irrespective of their size and wealth.

The number of directors of each branch will conform to the number of local associations which compose the branch, but the method of election is similar to that described above, the result being that the control will be wisely kept so far as possible in the hands of the individual banks, regardless of their size and wealth.

We are now ready to consider the election of the board of governors of the National Reserve or Bank of Banks at Washington.

Under the Aldrich plan the method of election of this board, to all intents and purposes, is identical with that of the election of the directors of the local associations and branches. Now, gentlemen, I should like your keen attention, for just here I break away from the Aldrich plan. And with all due respect to the Senator and with every intention to do him justice, we must admit that through the process of elimination and amendment the plan has become something so different from that contemplated by Senator Aldrich that regardless of our politics we shall call it, as we hope it will be called in history, the Monetary Plan of the American people enacted into law by the sixty-third Congress.

I propose that this main body, in whose hands we American people must place the financial destiny of our nation, shall not be elected by the bankers nor by any special interest, but shall be singled out for that great honor and service by the President of the United States. My purpose is to adopt the method of procedure of the appointment of the Justices of the Supreme Court, who, as we know, are appointed for life by the President, subject to confirmation by the Senate. I would make one qualification, that the President shall appoint one-half of the board from the eastern section of the country, and one-half from the western, the zones to be divided by a line running north and south through the centre of population, which line of demarkation tends to move further and further west as the country develops.

I propose that this board—the Court of Finance—shall be reduced from the unwieldy number of forty-five, as recom-

mended under the Monetary Plan, to fourteen. Of this number six shall be practical bankers, one of whom shall be appointed to act as Governor General, six shall be appointed from the industrial, commercial, farming and other interests, and two shall be academic students of banking. There shall also be as *ex-officio* members, the Secretary of the Treasury, the Secretary of Commerce and Labor and the Comptroller of the Currency, making seventeen in all. With the exception of the *ex-officio* members, these men shall devote themselves for life, to the exclusion of all other interests, through the work of the National Reserve, to the service of the nation.

It would be outside my province to suggest the proper compensation for the members of the Court, my idea being that compensation should come from the Government and be commensurate with services rendered. Inasmuch as members of the Court cannot be stockholders in the National Reserve—as only banks are eligible—I propose a scheme somewhat similar to that in vogue in Germany, whereby there shall be a stockholders' committee of five, with whom the Court shall consult from time to time.

It has been suggested that the appointing power be placed in the hands of the President, the Comptroller of the Currency, the Secretary of the Treasury, and the Secretary of Commerce and Labor jointly. This method would mean divided responsibility, the thing of all things I wish to avoid. It is through the grave responsibility that we place upon the shoulders of one man—a responsibility so enormous that he is bound to invest with it the man he appoints—that I hope to secure the service desired. The ablest financier of this generation, J. P. Morgan, appointed for life a governor of the National Reserve by the President of the United States, subject to confirmation by the Senate, is a very different man from J. P. Morgan elected to that post by the bankers.

Let us now consider what objections will be raised. I presume you have many to offer. I will mention two. First and foremost, it will be said that in giving this power to the President we are bringing politics into banking. Upon this point I have but one thing to say. If, to guard our constitutional interests, we can trust the members of the Supreme Court of law to appointment by the President, subject to confirmation by the Senate, why can we not, to protect our financial interests, entrust to him, with the same safeguard, the appointment of the members of the Court of Finance?

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A second objection may be this: How are we to persuade our busy business men to serve?

If lawyers can be found unselfish enough, disinterested enough, to sacrifice their desire for wealth to the service of their country, is it possible we have no such bankers? I cannot, will not believe it. Give them the opportunity, and they will covet the privilege.

Now, there is a side to this question other than that of patriotism. It is that of self-preservation. And in the last analysis, what is patriotism but self-preservation? Not long ago a man said to me: "Mr. Rhoades, if you gave the same amount of time to your business that you have given to banking reform, you would be a richer and more influential man." What was my answer?—"My dear sir, I have not forgotten the panic of 1907, and I shall do everything that lies within my power to prevent another—I'm a banker, that's my duty. But I suffered in that panic, and don't you forget it—mentally, yes, financially. Disturbances are certain to occur, but I draw the line at the cataclysms of the past. Of what use is it to me to make money for five, ten, fifteen years, and then through no fault of mine lose it over night? Of what use is it to a man to pile up money all his life, and die, and have his children suffer?" I wish I could make our busy money-makers see that side of the picture. I wish I had the eloquence to impress upon them the danger that confronts them. I am not preaching patriotism now, but self-interest and preservation. I know such men are shrewd enough to sniff a panic from afar and run to cover before it breaks, but not one of them has nerve enough to care to see another.

We hear much to-day of the Money Trust and of control in the hands of the few. Control is, has been, and always will be in the hands of a few. That it exists was demonstrated in the panic of 1907, when, with due credit to the clearing houses and to the Government, the financial interests of the country bowed down to the will of one man. And let us thank our lucky stars that in such an emergency we had that man. This nation little appreciates the anxious days of 1907. It little knows what that man said and did and how he saved the country from financial conflagration, which, starting in New York and fueled by thoughtless hands, would have spread from ocean to ocean. But I believe that such enormous power, power great enough to stop a panic, power great enough to bring one on, should be in the hands of men who have no private

interests to promote, but solely one duty to perform—that of service to the people.

The Court of Finance, which I propose, is the supreme tribunal to whom the American people must entrust the financial destiny of their nation. These are the men who must be above suspicion. It is they who will set the standard of membership in the National Reserve, with authority to accept or reject an application. It is they who will have the power to expel. It is they who will control the discount rate—raise it to check speculation in the East—raise it to check speculation in the West—raise it when the financial seas are disturbed—lower it when the seas are calm. The question before us is not whether the financial destiny of the nation shall be in the hands of a few, but who shall be the few, and how they shall be made, so far as lies within our power, subservient to the will of all.

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